

Audit



Report

OFFICE OF THE INSPECTOR GENERAL

UNIVERSITY RESEARCH INITIATIVE PROGRAM

Report No. 97-198

July 28, 1997

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Department of Defense

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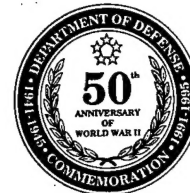
Acronym

AFOSR
MCP

Air Force Office of Scientific Research
Management Control Program



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202-2884



July 28, 1997

**MEMORANDUM FOR ASSISTANT SECRETARY OF THE NAVY (FINANCIAL
MANAGEMENT AND COMPTROLLER)
ASSISTANT SECRETARY OF THE AIR FORCE
(FINANCIAL MANAGEMENT AND COMPTROLLER)
AUDITOR GENERAL, DEPARTMENT OF THE ARMY**

**SUBJECT: Audit Report on University Research Initiative Program
(Report No. 97-198)**

We are providing this audit report for information and use. We considered management comments on a draft of this report in preparing the final report.

Comments on the draft of this report conformed to the requirements of DoD Directive 7650.3 and left no unresolved issues. Therefore, no additional comments are required.

We appreciate the courtesies extended to the audit staff. Questions on the audit should be directed to Mr. Raymond A. Spencer, Audit Program Director, at (703) 604-9071 (DSN 664-9071) or Mr. Roger H. Florence, Audit Project Manager, at (703) 604-9067 (DSN 664-9067). See Appendix D for the report distribution. The audit team members are listed inside the back cover.

Robert J. Lieberman
Assistant Inspector General
for Auditing

Office of the Inspector General, DoD

Report No. 97-198
(Project No. 6AB-0077)

July 28, 1997

University Research Initiative Program

Executive Summary

Introduction. The University Research Initiative Program, which Congress mandated in 1986, is one element of the DoD basic research program. The Director of Defense Research and Engineering provides management oversight of the University Research Initiative Program. The Military Departments are responsible for selecting, awarding, and administering research grants issued to universities and colleges under the program.

Audit Objectives. Our audit objective was to determine whether policies and procedures for selecting, awarding, and administering projects under the University Research Initiative Program are effective. We also evaluated the adequacy of management controls related to the audit objective.

Audit Results. The Military Departments' policies and procedures for selecting, awarding, and administering University Research Initiative Program grants were generally effective. The Navy implemented an effective management control program. However, the Army Research Office did not adequately implement its management control program, and the Air Force Office of Scientific Research did not establish the required management control program. As a result, the Army Research Office and Air Force Office of Scientific Research could not necessarily determine whether their functions complied with DoD policies and procedures and whether operations were effective and efficient.

Summary of Recommendations. We recommend that the Director, Army Research Office, revise its management control program to include technical oversight of grants as a mission-critical function. We also recommend that the Director, Air Force Office of Scientific Research, establish the required Air Force management control program and provide training to personnel responsible for the management control program.

Management Comments. The Director, Army Research Office, and Deputy Director, Air Force Office of Scientific Research, provided comments to the draft report. The Army concurred with the report recommendation and stated that an internal process action team would review and report on the existing practices in the area of management control. The Air Force concurred with the report recommendation and stated that it would expand its current management control program and provide training where needed. Part I summarizes management comments, and Part III contains the complete text of the comments.

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Part I - Audit Results

Audit Background

The DoD basic research program plays a critical role in developing technology and in educating and training scientific personnel needed to support continuing military technological advances. The University Research Initiative Program, which Congress mandated in 1986, is one element of the DoD basic research program.

The University Research Initiative Program funds Defense research performed at universities and colleges as well as supports the education of future scientists and engineers in disciplines critical to national Defense needs. The University Research Initiative Program supports academic researchers; funds the studies of graduate and undergraduate students; encourages, through joint funding, collaborative research between academia and industry; assists in the procurement of research equipment necessary to conduct the research at universities and colleges; and provides research funds to historically minority colleges.

The Office of the Director of Defense Research and Engineering provides overall management of the University Research Initiative Program, and the Military Departments execute the program for DoD. The Office of the Director of Defense Research and Engineering overall management includes the review of research topics proposed for funding for relevance to military requirements. DoD research officials convene panels to select military research projects. Oversight panels are composed of representatives from the Military Departments, DoD research laboratories, and private industry.

The Military Departments provide funding under the University Research Initiative Program through grants using the policies in Office of Management and Budget Circular A-110, "Uniform Administrative Requirements for Grants and Agreements With Institutions of Higher Education, Hospitals and Other Non-Profit Organizations," November 29, 1993. The Circular A-110 policies are supplemented in interim guidance in DoD Regulation 3210.6-R, "DoD Grant and Agreement Regulations," February 4, 1994. The contract officials at the Military Departments' research offices negotiate, award, and administer University Research Initiative Program grants using the guidance in Circular A-110 and Regulation 3210.6-R.

Audit Objectives

The primary audit objective was to determine whether policies and procedures for selecting, awarding, and administering projects under the University Research Initiative Program are adequate. We also evaluated the adequacy of management controls related to the primary audit objective. Appendix A describes the audit scope and methodology.

Administering the University Research Initiative Program

Based on the results of our audit, the University Research Initiative Program was generally effective in the following areas:

- o DoD is properly advertising research interests for receipt of research proposals. Upon receipt of research proposals, DoD has an effective process of convening panels for review and selection of proposals.

- o The Military Departments awarded grants issued under the program to the universities and colleges in accordance with established policies and procedures.

- o the Military Departments' technical representatives generally administered grants well.

Appendix B discusses in more detail the audit results in the selection, award, and administration of grants under the University Research Initiative Program. However, implementation of management control programs needs improvement and is discussed in the finding.

Management Control Programs

The Army Research Office did not adequately implement its management control program, and the Air Force Office of Scientific Research (AFOSR) did not establish the required management control program. The Army did not have an adequate management control program because the Army Research Office did not ensure review of all areas critical to the accomplishment of its mission. AFOSR did not properly emphasize the importance of management controls and did not provide adequate training to responsible personnel. As a result, the Army Research Office and AFOSR could not necessarily determine whether their functions complied with DoD policies and procedures and whether operations were effective and efficient.

Management Controls and Policy

Managers are responsible for the quality and timeliness of the Federal programs and operations that they manage, for increasing programs and operations productivity, and for controlling program and operation costs. Management controls are the organization's policies and procedures used to ensure that the program achieves the intended results; that resources are used consistently with the organization's mission and in accordance with laws and regulations; and that reliable and timely information is obtained, maintained, reported, and used for decisionmaking. Management controls are not stand-alone activities but are integrated into the day-to-day operational responsibilities of the organization managers.

The Office of Management and Budget established management control policy by issuing Circular A-123, and DoD supplemented the policy by issuing directives, regulations, and instructions. The Office of Management and Budget revised management control policy in June 1995, and DoD officials revised DoD management control policy in August 1996. This report discusses both the revised guidance and previous guidance, because the grants reviewed were awarded during FYs 1994 through 1996. Army Research Office and AFOSR officials used the earlier versions during the audit timeframe. However, we considered the new guidance when making our recommendations for corrective action.

Office of Management and Budget Policy. Office of Management and Budget Circular A-123, Revised, "Management Accountability and Control," June 21, 1995, replaced Office of Management and Budget Circular A-123, Revised, "Internal Control Systems," August 4, 1986, and Office of Management and Budget "Internal Controls Guidelines," December 1982. The new Circular provides greater flexibility by giving agencies the discretion to determine procedures to use in the proper stewardship of Federal resources. The new Circular does not require agencies to institute a separate management control process, and it gives agencies the discretion to determine what procedures to use

in establishing, assessing, correcting, and reporting on management controls. The Circular states:

Agencies and individual Federal managers must take systematic and proactive measures to (i) develop and implement appropriate, cost-effective management controls for results-oriented management; (ii) assess the adequacy of management controls in Federal programs and operations; (iii) identify needed improvements; (iv) take corresponding corrective action; and (v) report annually on management controls.

DoD Management Control Policy. DoD implemented the management control policy by issuing DoD Directive 5010.38, "Internal Management Control Program," April 14, 1987, and DoD Instruction 5010.40, "Management Control (MC) Program Procedures," August 28, 1996. DoD Directive 5010.38 requires DoD organizations to implement a comprehensive system of management controls that provides reasonable assurance that programs are operating as intended and to evaluate the adequacy of the controls. DoD Directive 5010.38, "Management Control (MC) Program," August 26, 1996, cancels the earlier directive and requires the continuous monitoring of and improving the effectiveness of management controls. The revised guidance does not change management's responsibility to design management structures that help ensure accountability for results and to include appropriate, cost-effective management controls. Management control objectives include complying with applicable laws; safeguarding assets; properly accounting for revenues and expenditures; and avoiding fraud, waste, and mismanagement.

DoD Instruction 5010.40 prescribes procedures for implementation and use of management control programs. DoD policy requires that DoD organizations establish management control programs to review, evaluate, and report on the effectiveness of management controls. In addition, DoD management is required to take appropriate action to identify and correct ineffective management controls and to establish management controls when warranted.

Army Management Control Program

Army Policy. The Army revised Army Regulation 11-2, "Management Control," on August 1, 1994. The Army regulation streamlines the management control process, reinforces the accountability of Army commanders and managers for establishing and maintaining effective management controls, and provides Army commanders and managers with greater flexibility in their evaluation of the controls. The revised regulation decentralizes the formulation of a management control plan. The Army Management Control Program is a written plan for conducting required management control evaluations within the assessable unit over a 5-year period. Under the old regulation, the Army Materiel Command published a single management control plan, which the regulation encouraged, but did not require, field organizations to supplement to address command-unique or location-unique circumstances. Under the new regulation, major subordinate commands and separate reporting organizations,

Management Control Programs

such as the Army Research Office, will prepare their own management control plans.

Army Research Office Management Control Program. Army Research Office officials did not adequately implement its management control program because the program did not include a review of all mission-critical functions to accomplish its mission. Instead, the Army Research Office continued to use the Army Materiel Command management control plans for FYs 1995 and 1996. The plans included evaluations of functional areas for procurement, budget execution, information management control, supply and property management, and personnel management. Although those functional areas are important to accomplish the Army Research Office's mission, the Army Research Office did not supplement the plan to include technical oversight of grants. The Army Research Office needs to include grant technical oversight as a mission-critical function in the management control plan to ensure that the Army Research Office achieves its mission of fostering and maintaining an Army science base and to ensure that grantees are properly complying with the conditions of the grant. An example of the lack of grant monitorship is illustrated with a University of Kentucky grant.

University of Kentucky. The Army Research Office technical monitor for a University of Kentucky augmentation grant, DAAH04-95-1-0357, was unaware that the principal investigator responsible for the performance of the research on the parent grant had resigned from the University, and no research was performed under the grant. The Army Research Office officials awarded the grant to the University of Kentucky on May 19, 1995, and provided three quarterly scheduled payments totaling \$34,998. The Army Research Office discontinued the quarterly payments upon notification from the University of Kentucky that the principal investigator transferred to another university. The Army Research Office technical monitor should have been aware that the principal investigator transferred and that no research had been performed, and should have initiated termination of the grant.

The Army Research Office is responsible for its own management control program and for development of the associated management control plan identifying functional areas for review. The Army Research Office management control plan should include grant technical oversight as a mission-critical function.

Air Force Management Control Program

Air Force Policy. Air Force Policy Directive 65-2, "Internal Management Controls," March 10, 1993, states that "Commanders and managers at every level of the Air Force are responsible for establishing, evaluating, improving, and reporting on internal controls."

Air Force Instruction 65-201, "Internal Management Control Program," July 1, 1994, implements Air Force Policy Directive 65-2. The instruction provides a

structure to establish, evaluate, and report on the Air Force management controls in all functional areas. The instruction states, "Managers must apply controls to all administrative and programmatic functions."

Air Force Instruction 65-201/Air Force Materiel Command Supplement 1, "Internal Management Controls Program," April 17, 1995, implements Air Force Instruction 65-201. The instruction elaborates on the Air Force Materiel Command's role in supporting the Air Force Management Control Program and is not intended as a stand-alone instruction. Air Force Instruction 65-201 requires AFOSR management to establish and evaluate management controls and to prepare a management control plan and an annual statement of assurance. A management control plan, updated annually, lists the inventory of assessable units and schedules vulnerability assessments and management control reviews. The annual statement of assurance states whether or not management has reasonable assurance that the objectives of the management control program are met. A management control review is a tool used to evaluate the organizational management controls.

AFOSR Regulation 123-1, "Self-Inspection Program," February 1, 1988, establishes self-inspection program requirements for all AFOSR personnel managing functional areas. The self-inspection program enables the Commander and supervisors at all management levels to identify and correct management deficiencies and noncompliance with directives. The regulation outlines responsibilities, provides procedures for developing and using checklists, and directs annual self-inspections.

Air Force Office of Scientific Research Management Control Program. AFOSR management did not establish a management control program as required by Air Force policy. Also, the AFOSR official responsible for the management control program had limited training in establishing an effective program. Although AFOSR submitted the annual statements of assurance for FYs 1995 and 1996 to the Air Force Materiel Command as required, the annual statements were not based on an examination of functions at the organization as outlined in Air Force Instruction 65-201.

AFOSR is responsible for supporting research efforts that are of interest to the Air Force at universities and colleges. The support includes providing funds for undergraduate and graduate studies, providing support for domestic and international research programs, and providing support for the acquisition of research resources.

The lack of a management control program and the associated management control plan has inhibited AFOSR management from identifying functions that require attention as illustrated in the following example of the lack of controls in the receipt and processing of interest checks associated with grant funding.

University of Southern California Interest Checks. Office of Management and Budget Circular A-110 requires grantees to deposit advanced funds in interest-bearing accounts and submit earned interest to the Government. We examined the AFOSR process for receiving and processing interest checks and found the controls to be inadequate. Although AFOSR implemented an

Management Control Programs

Air Force Audit Agency recommendation for establishing procedures securing checks in a secure container and procedures for transporting the checks for deposit, the procedures did not address other safeguards such as recording the check receipt in a log, controlling documentation necessary for check deposit, and forwarding the interest checks for deposit in a timely manner.

The University of Southern California submitted 37 interest checks, valued at \$105,400, on a monthly basis to AFOSR between January 21, 1993, and December 11, 1995. Although AFOSR personnel provided documentation of the transfer of interest checks to the Defense Finance and Accounting Service, it took AFOSR personnel 6 weeks to provide the transfer documentation after extensive research. In addition, AFOSR did not process interest checks for deposit in a timely manner, and the processing of interest checks for deposit ranged from 2 weeks to 4 months.

Although AFOSR had some management control procedures in various functional areas, the establishment of a management control program at AFOSR could have identified inadequate procedures for the receipt of interest checks. AFOSR lacked an effective overarching management control program because AFOSR management did not emphasize policy requirements and did not ensure that the personnel responsible for the management control program received the necessary training.

Navy Management Control Program

The Office of Naval Research implemented an effective management control program because it:

- o identified mission-critical functional areas,
- o had documentation to identify that functional areas were reviewed for compliance with policies and procedures,
- o identified functional area weaknesses and took corrective actions, and
- o properly supported the annual statement of assurance.

Conclusion

The DoD Management Control Program (MCP) entails risk assessment, periodic self evaluation and reporting of material control weaknesses. Compliance with the requirements of the MCP is necessary for obtaining reasonable assurance that the Army Research Office and AFOSR accomplish programs and functions as intended and that they provide reliable and timely information to decisionmakers. The Army Research Office and AFOSR should

integrate management control evaluation measures with other management policies, regulations, and procedures. The Army Research Office and AFOSR management controls should be consistent with the organizations' unique mission of supporting research and development efforts. Copies of this report should be provided to the senior Army and Air Force MCP officials.

Recommendations for Corrective Action

1. We recommend that the Director, Army Research Office, modify its management control program to include the grant technical oversight function as a mission-critical function.
2. We recommend that the Director, Air Force Office of Scientific Research, establish a management control program as required by Air Force policy and provide training to personnel responsible for management controls.

Management Comments

Army Comments. The Army Research Office concurred with the recommendation to modify its management control program and plans to establish a total quality management process action team to review and report on the existing practices and to recommend improvements upon issuing its final report August 25, 1997.

Air Force Comments. The Air Force Office of Scientific Research concurred with the recommendation to establish a management control program and provide training where needed, and plans to expand the current management control program for Management of Science and Technology.

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Part II - Additional Information

Appendix A. Audit Process

Scope

We performed the economy and efficiency audit from September 1996 through March 1997. To accomplish the audit objectives, we judgmentally selected and reviewed 89 grants, valued at \$22 million, issued by the Military Departments to 9 universities, during FYs 1994 through 1996. We did not review the merits of selecting the research grants because of the scientific nature of the research, but we did review the overall process for selecting research grants. We examined the Military Departments' policies and procedures for awarding and administering University Research Initiative Program grants.

We also reviewed the records of 4 of the 9 universities in relation to the expenditure rates of advanced research funds and the submission of earned interest to the Government. Appendix C identifies the grants reviewed.

Audit Period and Standards

We performed this economy and efficiency audit from September 1996 through March 1997 in accordance with auditing standards issued by the Comptroller General of the United States, as implemented by the Inspector General, DoD. We included tests of management controls considered necessary.

Methodology

We reviewed policies and procedures for awarding and administering University Research Initiative Program grants at the Military Departments, examined selected grants, and conducted interviews with Military Department and academic personnel. Specifically, we:

- o reviewed research and development grant policies and procedures dated July 1976 through May 1996;

- o reviewed the Military Departments' research grant files and correspondence dated 1994 through 1996;

- o interviewed Military Departments' technical directors and technical managers and the Services' grant officials;

- o interviewed administrative grant officers;
- o interviewed academic personnel at four universities; and
- o reviewed accounting records dated May 1994 through January 1997 at four universities.

Use of Computer-Processed Data

We relied on computer-processed data from the Military Departments' data bases without testing the system's general and application controls to confirm the reliability of the data. However, before using the data bases to represent the University Research Initiative Program universe and selecting a sample, we performed tests to determine the completeness of the data bases. In addition, we did not identify any significant inaccuracies in the information obtained from the Military Departments' data bases while performing the audit.

Prior Audits and Other Reviews

No audits or reviews were performed in the last 5 years on the University Research Initiative Program.

Air Force Audit Agency Installation Report No. 50296028, "Administration of Advance Payment Pool Agreements, Air Force Office of Scientific Research (AFOSR)," March 12, 1996, recommended that the Director ensure the development of management controls for the processing of interest checks associated with advanced payments. The AFOSR management concurred with the recommendation and implemented controls that required the securing of the interest checks in a secure container and safeguarding the transporting of the checks for deposit.

Organizations and Individuals Visited or Contacted

We visited or contacted individuals and organizations within the DoD and the University of Kentucky, Purdue University, University of California at San Diego, and University of Southern California. Further details are available upon request.

Appendix B. Audit Objective Results

During this audit, we judgmentally selected and reviewed 89 grants, valued at \$22 million, at 9 different universities (Appendix C). The 89 grants were issued by either the Army Research Office, the Office of Naval Research, or AFOSR. Although we identified deficiencies in administering of individual grants, the deficiencies were not systemic of an overall problem. The overall results of our review, by objective, are discussed below.

Selecting Research Efforts. The selection process for research efforts involves the convening of scientific panels to review and rate research proposals that universities and colleges submit in response to DoD requests for research proposals. The scientific panels are composed of officials from the Office of the Secretary of Defense, the Military Departments, and in some cases private industry. Our review of the process of advertising and selecting research efforts identified no significant problems.

Awarding University Research Initiative Program Grants. The Military Departments were generally awarding the University Research Initiative Program grants in compliance with established policies and procedures of the Office of Management and Budget Circular and DoD regulations. The grants reviewed were issued using the guidelines established in the Office of Management and Budget circular A-110, DoD Regulation 3210.6-R, or agency-specific regulations. In addition, grant officers were trained in the requirements for awarding grants. The audit found some minor irregularities in the awarding process; however, the irregularities were not deemed systemic. For example, documentation of the analysis of grantees' cost proposals could be improved, ensuring that they properly verified all the labor rates.

Administering University Research Initiative Program Grants. In general, the Military Departments' technical representatives adequately administered the University Research Initiative Program grants reviewed. The technical representatives were aware of the requirements of the grants regarding monitoring the research through annual progress reports. In some cases, the researchers were not submitting research progress reports in a timely manner. However, Military Departments' technical representatives used other methods to monitor the progress of research efforts, including the review of technical papers for publication concerning the research, attendance at seminars and symposiums in the research topic area, and participation in workshops discussing the research status. In addition, examination of the technical representatives' performance plans identified that monitoring research efforts was a job performance element. For the 89 grants reviewed during the audit, the administrative responsibilities and duties were deemed sufficient.

Appendix C. University Research Initiative Grants Reviewed

<u>Army Grants</u>		
<u>Grant Number</u>	<u>Grantee - University</u>	<u>Value of Grant</u>
DAAH04-94-G-0083	Duke	\$ 10,787
DAAH04-94-G-0174	Duke	99,163
DAAH04-95-1-0243	Duke	100,000
DAAH04-95-1-0275	Duke	89,999
DAAH04-96-1-0246	Duke	275,000
DAAH04-96-1-0283	Duke	51,736
DAAH04-96-1-0448	Duke	431,000
DAAH04-94-G-0110	Purdue	51,030
DAAH04-94-G-0181	Purdue	84,724
DAAH04-94-G-0210	Purdue	95,000
DAAH04-94-G-0297	Purdue	96,540
DAAH04-94-G-0365	Purdue	168,670
DAAH04-95-1-0008	Purdue	150,000
DAAH04-95-1-0010	Purdue	95,720
DAAH04-95-1-0237	Purdue	100,000
DAAH04-95-1-0246	Purdue	1,140,000
DAAH04-95-1-0385	Purdue	51,709
DAAH04-95-1-0513	Purdue	88,222
DAAH04-96-1-0222	Purdue	161,764
DAAH04-96-1-0331	Purdue	1,881,500
DAAH04-96-1-0444	Purdue	3,000,000
DAAH04-94-G-0105	Kentucky	61,660
DAAH04-94-G-0243	Kentucky	172,300
DAAH04-94-G-0331	Kentucky	309,685
DAAH04-94-G-0344	Kentucky	329,061
DAAH04-95-1-0357	Kentucky	140,000
DAAH04-96-1-0327	Kentucky	496,266
DAAH04-96-1-0398	Kentucky	143,827
DAAH04-96-1-0399	Kentucky	228,840
Total: 29		\$10,104,203

Appendix C. University Research Initiative Grants Reviewed

Navy Grants

<u>Grant Number</u>	<u>Grantee - University</u>	<u>Value of Grant</u>
N00014-95-1-0753	Oregon State	\$ 120,763
N00014-95-1-0895	Oregon State	110,141
N00014-95-1-1036	Oregon State	118,158
N00014-95-1-1061	Oregon State	299,575
N00014-95-1-1104	Oregon State	500,000
N00014-95-1-1170	Oregon State	200,000
N00014-95-1-1227	Oregon State	150,947
N00014-96-1-0933	Oregon State	122,225
N00014-96-1-0957	Oregon State	120,493
N00014-96-1-1009	Oregon State	154,490
N00014-96-1-1101	Oregon State	124,798
N00014-94-1-0657	California at San Diego	114,632
N00014-94-1-0822	California at San Diego	79,964
N00014-94-1-0997	California at San Diego	76,435
N00014-94-1-1064	California at San Diego	72,900
N00014-95-1-0795	California at San Diego	111,464
N00014-95-1-0814	California at San Diego	90,000
N00014-95-1-0882	California at San Diego	80,912
N00014-95-1-0996	California at San Diego	145,000
N00014-95-1-1002	California at San Diego	113,500
N00014-96-1-1046	California at San Diego	394,000
N00014-96-1-1220	California at San Diego	134,326
N00014-94-1-0707	Texas at Austin	174,509
N00014-94-1-0757	Texas at Austin	204,745
N00014-95-1-0885	Texas at Austin	177,625
N00014-95-1-1131	Texas at Austin	111,797
N00014-95-1-1137	Texas at Austin	400,000
N00014-95-1-1140	Texas at Austin	165,000
N00014-96-1-0923	Texas at Austin	95,000
Total: 29		\$4,763,399

Appendix C. University Research Initiative Grants Reviewed

Air Force Grants

<u>Grant Number</u>	<u>Grantee - University</u>	<u>Value of Grant</u>
F49620-94-1-0327	Princeton	\$ 177,811
F49620-94-1-0372	Princeton	196,691
F49620-94-1-0389	Princeton	149,601
F49620-94-1-0391	Princeton	153,001
F49620-95-1-0111	Princeton	199,700
F49620-95-1-0438	Princeton	139,044
F49620-95-1-0532	Princeton	499,999
F49620-96-1-0191	Princeton	150,000
F49620-96-1-0261	Princeton	126,070
F49620-96-1-0405	Princeton	305,165
F49620-96-1-0511	Princeton	220,000
F49620-94-1-0406	California at Los Angeles	127,393
F49620-95-1-0405	California at Los Angeles	152,874
F49620-95-1-0414	California at Los Angeles	108,245
F49620-95-1-0429	California at Los Angeles	224,474
F49620-95-1-0453	California at Los Angeles	94,637
F49620-95-1-0491	California at Los Angeles	199,070
F49620-95-1-0534	California at Los Angeles	499,999
F49620-96-1-0296	California at Los Angeles	102,099
F49620-96-1-0302	California at Los Angeles	144,390
F49620-96-1-0453	California at Los Angeles	379,795
F49620-96-1-0474	California at Los Angeles	133,500
F49620-94-1-0358	Southern California	138,715
F49620-94-1-0407	Southern California	93,924
F49620-95-1-0035	Southern California	891,100
F49620-95-1-0089	Southern California	220,000
F49620-95-1-0103	Southern California	82,842
F49620-95-1-0420	Southern California	100,983
F49620-95-1-0445	Southern California	131,730
F49620-95-1-0450	Southern California	134,999
F49620-95-1-0452	Southern California	<u>900,000</u>
Total: 31		\$7,177,851

Total University Research Initiative Grants: 89 \$22,045,453

Appendix D. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense for Acquisition and Technology
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Auditor General, Department of the Army
Commander, Army Materiel Command
Director, Army Research Office

Department of the Navy

Assistant Secretary of the Navy (Financial Management and Comptroller)
Chief of Naval Research, Office of Naval Research
Auditor General, Department of the Navy

Department of the Air Force

Assistant Secretary of the Air Force (Financial Management and Comptroller)
Auditor General, Department of the Air Force
Commander, Air Force Materiel Command
Director, Air Force Office of Scientific Research

Other Defense Organizations

Director, Defense Contract Audit Agency
Director, Defense Logistics Agency
Director, National Security Agency
Inspector General, National Security Agency
Inspector General, Defense Intelligence Agency

Non-Defense Federal Organizations and Individuals

Office of Management and Budget
Technical Information Center, National Security and International Affairs Division,
General Accounting Office

Chairman and ranking minority member of each of the following congressional committees and subcommittees:

Senate Committee on Appropriations
Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
Senate Committee on Governmental Affairs
House Committee on Appropriations
House Subcommittee on National Security, Committee on Appropriations
House Committee on Government Reform and Oversight
House Subcommittee on Government Management, Information, and Technology,
Committee on Government Reform and Oversight
House Subcommittee on National Security, International Affairs, and Criminal
Justice, Committee on Government Reform and Oversight
House Committee on National Security

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Part III - Management Comments

Department of the Army Comments



DEPARTMENT OF THE ARMY
ARMY RESEARCH OFFICE
P.O. BOX 12211
RESEARCH TRIANGLE PARK, NC 27709-2211

REPLY TO
ATTENTION OF

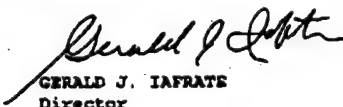
AMCRO-D

19 June 1997

MEMORANDUM FOR Auditor General, U.S. Army Audit Agency, 3101 Park Center Drive,
Alexandria, VA 22302-1596

SUBJECT: Audit Report on University Research Initiative Program (Project No. 6AR-0077)

1. As requested in your memorandum dated 30 May 1997, this office has reviewed the subject draft audit report. The report contends that ARO "...did not adequately implement its management control program because it did not include review of all mission-critical functions to accomplish its mission."
2. The report specifically cites the need to include technical oversight of grants as a mission-critical function in the management control plan and references a University of Kentucky (UK) AASERT grant as an example of inadequate technical oversight. The UK AASERT grant was awarded for BMDO to augment a parent grant being monitored by the Air Force. The ARO technical monitor was unaware that the Principal Investigator (PI) responsible for the performance of the research under the parent grant resigned from the University and performed no research. ARO awarded the grant to UK on 19 May 1997 and began providing scheduled research funding support on 19 Jul 1995. The PI of the parent grant resigned from the University of Kentucky in October 1995. ARO provided three quarterly payments for the AASERT research effort totalling \$34,998. ARO discontinued the quarterly payment upon notification from UK that the PI transferred to another university and subsequently recovered all payments.
3. ARO has a long history of awarding and administering research acquisition and assistance agreements. We believe that our management control system is generally adequate to protect the interests of the Army; however, we recognize the value of independent reviews of operating practices to test and strengthen these systems. In addressing the reported deficiency of the audit report, ARO will take corrective action. In order to strengthen the technical oversight of our research contracts and grants, I have directed that a TQM Process Action Team (PAT) be established to review our existing practices in this area and recommend improvements as necessary. The PAT will be headed by Dr. George Neece, Director, Research and Technology Integration. Dr. Neece's in-progress report is due 25 July 1997; the final report is due 25 August 1997.
4. POC for this action is Mr. Jack L. Harless, Director, Resources and Acquisition Management. He can be reached at (919) 549-4239 or DSN 832-4239.


GERALD J. IAFATE
Director

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OASA(RDA) (Ms. Kominos)
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Department of the Air Force Comments



DEPARTMENT OF THE AIR FORCE
AIR FORCE OFFICE OF SCIENTIFIC RESEARCH (AFMC)



1 JUL 97

MEMORANDUM FOR DEPARTMENT OF DEFENSE INSPECTOR GENERAL
ATTN: PATRICIA BRANNIN

FROM: AFOSR/CD
110 Duncan Ave, Room B115
Bolling AFB, DC 20332-8050

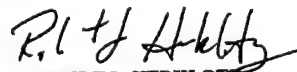
SUBJECT: Comments and Statement of Corrective Action on Draft of a Proposed Audit Report on University Research Initiative Program, Project No. 6AB-0077, May 30, 1997

1. References:

- a. DoD Directive 7650.3, Follow up on General Accounting Office, DoD Inspector General and Internal Audit Reports, September 5, 1989
- b. DoD Directive 5010.38, "Internal Management Control Program," April 14, 1987
- c. Office of Management and Budget (OMB) Circular A-123, Revised, "Management Accountability and Control," June 21, 1995
- d. Air Force Policy Directive 61-1, August 31, 1993, Scientific Research and Development, "Management of Science and Technology"
- e. Air Force Instruction 65-201, July 1, 1994, Financial Management, "Internal Management Controls Program"
- f. Air Force Instruction 65-201/AFMC Supplement 1, April 17, 1995, Financial Management "Internal Management Controls Program"
- g. Air Force Policy Directive 65-2, April 1, 1997, Financial Management, "Management Control Program"

2. Comments: The Air Force Office of Scientific Research (AFOSR) accepts the findings that the policies and procedures for selecting, awarding, and administering University Research Initiative Program grants were generally effective. AFOSR accepts that the DoD audit verified the previous findings of Air Force Audit Agency Installation Report No. 50296028, "Administration of Advance Payment Pool Agreements, Air Force Office of Scientific Research (AFOSR)," March 12, 1996.

3. Statement of Corrective Actions: AFOSR will expand its current Internal Management Control Program (IMCP) for Management of Science and Technology. AFOSR's expanded IMCP will be based on the references in subparagraphs 1.a.-1.g. above, and any updates thereafter, as they pertain to the mission of AFOSR and management control authority delegated by Air Force Materiel Command.


ROBERT L. HERKLOTZ
Colonel, USAF
Deputy Director

cc:
AFRL/CC
SAF/AQR (Dr. Walter Jones)



OFFICE OF THE ASSISTANT SECRETARY

DEPARTMENT OF THE AIR FORCE
WASHINGTON DC



15 July 1997

MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL FOR AUDITING
OFFICE OF THE INSPECTOR GENERAL
DEPARTMENT OF DEFENSE

FROM: SAF/AQR
1919 South Eads Street, Suite 100
Arlington, VA 22202-3053

SUBJECT: Audit Report on University Research Initiative Program (Project No. 6AB-0077)

This is in reply to your memorandum requesting the Assistant Secretary of the Air Force (Financial Management and Comptroller) to provide comments on subject report.

The Air Force accepts the findings that the Air Force Office of Scientific Research (AFOSR) policies and procedures for selecting, awarding, and administering University Research Initiative Program grants were generally effective. The Air Force accepts that the DoD audit verified the previous findings of the Air Force Audit Agency Installation Report No. 50296028, "Administration of Advance Payment Pool Agreements, Air Force Office of Scientific Research (AFOSR)," March 12, 1996.

In response to the recommendations of the subject report, I am directing AFOSR to expand its current Internal Management Control Program (IMCP) for Management of Science and Technology. AFOSR's expanded IMCP will be based on the following references, and any updates thereafter, as they pertain to the mission of AFOSR and management control authority delegated by Air Force Materiel Command:

- a. DoD Directive 7650.3, Follow up on General Accounting Office, DoD Inspector General and Internal Audit Reports, September 5, 1989.
- b. DoD Directive 5010.38, "Internal Management Control Program," April 14, 1987.
- c. Office of Management and Budget (OMB) Circular A-123, Revised, "Management Accountability and Control," June 21, 1995.
- d. Air Force Policy Directive 61-1, August 31, 1993, Scientific Research and Development, "Management of Science and Technology."
- e. Air Force Instruction 65-201, July 1, 1994, Financial Management, "Internal Management Controls Program."

2

- f. Air Force Instruction 65-201/AFMC Supplement 1, April 17, 1995, Financial Management, "Internal Management Controls Program."
- g. Air Force Policy Directive 65-2, April 1, 1997, Financial Management, "Management Control Program."

In summary, the Director of AFOSR will establish the required Air Force management control program and provide training to personnel responsible for the management control program, as recommended in the subject DoD Inspector General report.


HELMUT HELLWIG
Deputy Assistant Secretary
(Science, Technology and Engineering)

Audit Team Members

This report was prepared by the Acquisition Management Directorate,
Office of the Assistant Inspector General for Auditing, DoD.

Patricia A. Brannin
Raymond A. Spencer
Roger H. Florence
Dora Yvonne Lee
Herbert L. Braun
Gary B. Dutton
Sandra S. Morrell
Sonya M. Mercurius

INTERNET DOCUMENT INFORMATION FORM

A . Report Title: University Research Initiative Program

B. DATE Report Downloaded From the Internet: 10/18/99

**C. Report's Point of Contact: (Name, Organization, Address, Office
Symbol, & Ph #):** OAIG-AUD (ATTN: AFTS Audit Suggestions)
Inspector General, Department of Defense
400 Army Navy Drive (Room 801)
Arlington, VA 22202-2884

D. Currently Applicable Classification Level: Unclassified

E. Distribution Statement A: Approved for Public Release

F. The foregoing information was compiled and provided by:
DTIC-OCA, Initials: __VM__ **Preparation Date** 10/18/99

The foregoing information should exactly correspond to the Title, Report Number, and the Date on the accompanying report document. If there are mismatches, or other questions, contact the above OCA Representative for resolution.